



NOAA
FISHERIES

Sustainable
Fisheries

August 2014

NMFS Cost Recovery

IFQ Halibut/Sablefish





IFQ Halibut and Sablefish Cost Recovery for Fishing Year 2013

Cost Recovery

Section 304(d)(2)(A) of the Magnuson–Stevens Fishery Conservation and Management Act (MSA), enacted in late 1996, obligates NMFS to recover the “actual costs of managing and enforcing” the IFQ Program. The law provides that the fee be paid by IFQ fishermen and premised on the ex-vessel value of fish landed under the program. The fee cannot exceed 3 percent of the annual ex-vessel value in dollars, goods, and services.

Use of Funds

Receipts from the collection effort are deposited in two accounts. Twenty-five percent (25 percent) of the collections are deposited in the U.S. Treasury. They are available to Congress for annual appropriations to support the North Pacific (IFQ) Loan Program. The other 75 percent is deposited in the “Limited Access System Administrative Fund” (LASAF). Funds in this account are available only to the Secretary of Commerce and must be spent on IFQ Program management and enforcement.

Requirements and Responsibilities

The program places responsibilities on two categories of participants: 1) IFQ Registered Buyers who are acting as shoreside processors, and 2) IFQ permit holders with landings of halibut or sablefish authorized by their permit.

For IFQ Registered Buyers

Registered Buyers acting as shoreside processors must report the monetary value and amount of purchased pounds of halibut and sablefish by species, month, and port, information essential for calculating annual standard ex-vessel prices of IFQ fish. Reports are due at Restricted Access Management (RAM) by October 15 each year and can be submitted on the Internet or on paper forms.

For IFQ Permitholders

IFQ permit holders are responsible for fees owed for all landings on their permit(s), regardless of whether their IFQ pounds were from their own quota share (QS) or leased from another QS holder and regardless of whether a permit holder or a hired skipper made the landings.

Permit holders must pay their fee liability by no later than January 31 of the year after the calendar year of the landings. There are two payment options:

Option 1: Permit holders may pay the amount billed, which is NMFS calculation of the annual fee owed, based on standard prices and values; or

Option 2: Permit holders may pay an amount based in whole or in part on actual ex-vessel value from the sale of their IFQ halibut or sablefish. If they choose this option, they must be prepared to demonstrate, with written documentation, how much money or other value they received for those IFQ landings.

NMFS Responsibilities

At the end of each IFQ season, NMFS is responsible for these actions:

- ✓ compiles a list of all IFQ landings by species, month, and port or port group;
- ✓ uses shoreside IFQ Registered Buyer data to calculate a set of standard ex-vessel prices

for IFQ fish landed;

- ✓ applies the appropriate standard ex-vessel price to each landing, creating a standard ex-vessel value for each landing;
- ✓ sums the total standard ex-vessel values of all landings to derive the total ex-value of the year's IFQ fishery;
- ✓ compiles all direct program costs attributable to the IFQ fishery;
- ✓ uses direct program costs and total ex-vessel value to calculate the annual fee percentage;
- ✓ applies the percentage to the standard ex-vessel values to determine the fee owed for each landing;
- ✓ sums the fees owed for all landings on all IFQ permits held by each person. This final figure is the *annual fee* owed by each permit holder, based on standard prices and values; and
- ✓ mails IFQ permit holders a summary that itemizes their landings and shows their calculated fee liability. NMFS bases the fee liability on the sum of all payments of monetary worth (in dollars, goods, and services) to fishermen for landings of IFQ fish.

Penalties: Failure to pay on time results in NMFS action against the permit holder's QS holdings and additional monetary charges, fines, and/or permit sanctions. If a permit holder fails to pay by the January 31 due date, his/her QS/IFQ will become nontransferable until the fee liability is satisfied, and he or she may not receive QS or IFQ by transfer. The Office of Operations and Management (OMD) will issue an Initial Administrative Determination (IAD) to which the permit holder must respond within 30 days. If an account is unpaid for 30 days after the due date, administrative fees, interest, and penalties start to accrue.

If the account is not paid within the 30 days provided by the IAD, in addition to penalties, interest, and fees, the permit holder's IFQ permit account will be sanctioned and the permit holder will be unable to fish until the fee liability is satisfied. Additional fines may also apply.

Calculating the 2013 Fee

The fee for 2013 was set at 2.8 percent. This figure derives from three sources:

- The total ex-vessel value of the halibut and sablefish fisheries;
- The direct program costs of managing and enforcing the IFQ Program (by actual expenditures during Federal fiscal year 2013); and
- The balance in the Limited Access System Administrative Fund (last year's overpayment, if any). In 2012 the LASA Fund was under collected by \$106,630. This brought the 2012 total cost to \$5,027,433.

These sources are discussed below.

The 2013 IFQ Cost Recovery Fee Percentage

NMFS announced that the 2013 IFQ fee percentage was set at 2.8 (78 FR 72869, December 4, 2013). Under cost recovery regulations, IFQ permit holders who used their permits to record landings of halibut or sablefish during the 2013 IFQ fishery were obligated to pay 2.8 percent of the total ex-vessel value from the sale of their IFQ halibut and sablefish.

The fee percentage was premised on a total standard ex-vessel fishery value calculated at \$177,746,256 and total program costs of \$5,027,433.

Calculating the Fee Percentage

The annual fee percentage is calculated using the following formula:

$$[100 \times (\text{DPC})/\text{V}]$$

This is not as complicated as it may seem. It simply means that the direct program costs of management and enforcement (DPC), which now incorporate the LASA Fund account balance, multiplied times 100, is then divided by the fisheries value (V). The result, rounded to the nearest 0.1 percent, is the *fee percentage*. Table 4 shows the 2011 fee percentage computation.

Table 4 Detail of formula for calculating the 2013 fee percentage

| Factor | Value | Activity |
|--|-------------|---------------------------------------|
| Cost (DPC) | 5,027,433 | times 100 |
| Fisheries Value (V) | 177,746,256 | divided by |
| = | 2.8 | rounded to nearest 0.1 percent yields |
| <i>Rate for 2013 IFQ Season = 2.8 percent</i> | | |

Cost Components of the IFQ Fee Program

Within NMFS, the two highest cost components are NMFS Office of Law Enforcement (OLE) and Information Services Division (ISD), respectively. Between years, costs fluctuate due to changes within the programs, such as new contracts, required trainings, personnel changes, and purchases of equipment.

Ex-Vessel Value of the IFQ Fisheries

Because the fee obligation is a percentage of the ex-vessel value of the IFQ fisheries, it has been necessary to calculate those values. Ex-vessel prices vary from port to port and with the time of year.

RAM used the Registered Buyer data to calculate the average ex-vessel value for each species, port, and month. Then the amount of IFQ products delivered to each port or port group, by month, was multiplied by this “standard value.” The calculations show the total standard ex-vessel value of the two fisheries in 2012 as follows:

| | |
|------------------|----------------------|
| Halibut | 105,347,486.00 |
| Sablefish | <u>72,398,770.00</u> |
| Total | \$177,746,256.00 |

Note: NMFS combined ports with little price data with others into port groups and included these in the ex-vessel value calculations of the two fisheries.

The total standard ex-vessel value of the 2013 fisheries was 28% lower than the standard ex-vessel value of the 2012 fisheries. From 2012 to 2013, the average price per pound of halibut declined from \$5.87 per pound to \$5.06 while the sablefish price per pound declined from \$4.11 to \$2.84. During the same time period, the volume of halibut harvested in the IFQ fishery decreased 11% (2,495,852 pounds) and the value decreased 23% (\$31,369,358). The volume of sablefish harvested in the IFQ fishery decreased 4% (1,055,463 pounds) and the value decreased 33.63% (\$36,681,966).

Costs of Management and Enforcement

The other part of determining the fee is calculating costs associated with managing and enforcing the IFQ Program. Note these costs are incremental (that is, costs that would not have been incurred but for the IFQ Program). To arrive at these costs, in early September NMFS agency units and the International Pacific Halibut Commission (IPHC) each calculated their own IFQ-associated costs. Agency units included NMFS Restricted Access Management (RAM), NMFS Information Services Division (ISD), NMFS Office of Law Enforcement (OLE), NMFS Sustainable Fisheries Division (SF), NMFS Financial Service Division (FSD), NMFS Office of Operations and Management (OMD), NMFS Office of Administrative Appeals (OAA), and General Counsel Alaska (GCAK). Also included in the table is the Alaska Department of Fish and Game (ADF&G). Table 1 shows the costs by agency and operating unit, and Figure 1 is a comparison of those expenses (FY13) with those during Fiscal Year 2012 (FY12).

Conclusion

During FY13, program expenditures (\$4,920,803) increased 0.50 percent compared with FY12 total IFQ management and enforcement expenses (\$4,896,232) for various reasons: personnel and printing costs remained steady, and travel and contracts/training cost declined, while transportation, supplies, equipment, and rent/utilities costs were generally higher throughout NMFS. Personnel costs declined again for OLE as the number of full time employees dropped from 19 to 15 persons. Decreased personnel costs at ADF&G were directly related to the completion of modifications to the existing sport charter logbook program. These declines were offset by an increase in hours worked by SF and ISD. The FY13 Alaska Region and OLE costs for travel decreased from 2012 due to budget constraints. Increased contract/training cost for RAM, ISD and OLE were offset by non-renewal of contracts for IT support. The increase in equipment costs from FY12 to FY13 was attributed to scheduled purchases of desktops and laptops for AKR staff.

Despite minimal overall change in the direct program costs of management and enforcement from FY12 to FY13, the reduction in total standard ex-vessel value for the halibut and sablefish fisheries from 2012 to 2013 resulted in an increase in the fee percentage, from 2.1% in 2012, to 2.8% in 2013. This is a 7% increase over the 2012 fee percentage of 2.1%. This increase in the fee percentage follows a 5% increase in the fee from 1.6% in 2011. The increase in the fee percentage between 2011 and 2012 also can be attributed to a significant decline in value of the IFQ fishery while NMFS costs remained similar.

This season IFQ Registered Buyers and members of the IFQ fleet complied well with fee program requirements. Calculation of the annual fee relies on good reporting by IFQ Registered Buyers. IFQ fleet payment compliance in 2013 remained strong, further strengthening the IFQ fee program.

Cost recovery fees do not increase agency budgets or expenditures. They simply offset funds that would otherwise have been appropriated, except the IPHC and ADF&G expenditures, for which there is no direct appropriation. No budgetary advantage is ever gained by inflating IFQ management and enforcement costs.

Although some costs are controlled by “economies of scale,” other costs will decrease with the number of IFQ Program participants.

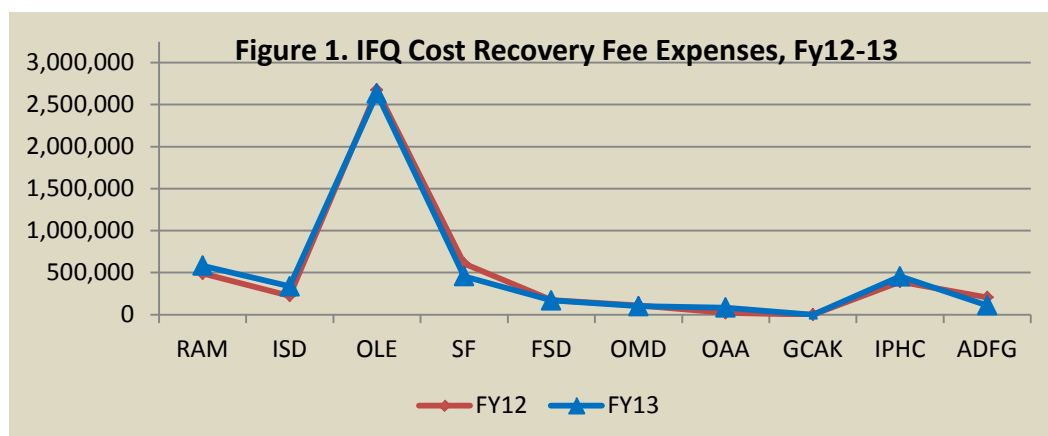


Table 1 Fiscal Year 2013 costs associated with management and enforcement of the IFQ Program

| Cost Recovery | NMFS RAM | NMFS ISD | NMFS Law Enforcement | NMFS Sustainable Fisheries | NMFS Financial Services | NMFS OMD | NMFS OAA | General Counsel AK | IPHC | ADF&G | Total |
|---------------------------------|----------------|----------------|----------------------|----------------------------|-------------------------|----------------|---------------|--------------------|----------------|----------------|------------------|
| Personnel Costs ^a | 353,674 | 172,878 | 1,880,076 | 323,293 | 169,236 | 87,449 | 74,294 | 0 | 375,829 | 85,889 | 3,522,618 |
| Travel ^b | - | 4,837 | 56,923 | 11,764 | - | - | 694 | 0 | 22,416 | 2,812 | 99,446 |
| Transportation ^c | 16 | - | 5,883 | - | - | 22 | - | - | - | - | 5,921 |
| Printing | - | - | - | - | - | 2,590 | - | - | - | - | 2,590 |
| Contracts/Training | 50,058 | 90,562 | 328,961 | - | - | - | - | - | 51,689 | 2,579 | 523,849 |
| Supplies | 2,339 | 3,197 | 15,405 | 381 | - | 875 | - | - | 3,195 | 4,875 | 30,623 |
| Equipment | - | - | 21,700 | - | - | - | - | - | - | - | 21,700 |
| Rent/Util/Overhead ^d | 50,906 | 15,024 | 322,410 | 38,124 | - | 9,085 | 7,061 | - | - | - | 442,611 |
| Other ^e | 125,000 | 50,000 | - | 82,498 | - | - | - | - | 486 | 13,462 | 271,446 |
| Total | 581,993 | 336,497 | 2,631,358 | 456,060 | 169,236 | 100,021 | 82,405 | 0 | 453,615 | 109,616 | 4,920,803 |

^a Personnel Costs include locality pay and all benefits.

^b Travel includes per diem payments. IPHC uses a scalar to determine costs so IPHC travel expenses reflect costs derived by a separate cost formula.

^c Transportation includes shipment of items.

^d Rent/Utilities/Overhead includes costs of space and utilities and shared common space and services.

^e IPHC "other" expenses include costs related to vessel clearances and reimbursed communications costs. ADF&G's indirect costs are also included in "Other."